

Message Text

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TO AMEMBASSY CARACAS NIACT IMMEDIATE

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STADIS//////////

E.O. 11652: GDS

TAGS: ENRG, EINV

SUBJECT: TALKING POINTS FOR FRIDAY MEETING

REF: STATE 221302, SEPTEMBER 18, 1975.

FOR THE AMBASSADOR FROM ASSISTANT SECRETARY ROGERS

1. THE FOLLOWING IS CURRENT DRAFT OF TALKING POINTS
WHICH IS APPROACHING AN APPROVED L/ARA POSITION FOR FRIDAY
MEETING. REQUEST YOUR VIEWS.

BEGIN TEXT:

2. MEETING WITH REPRESENTATIVES OF OIL COMPANIES
TO DISCUSS NATIONALIZATION IN VENEZUELA AND
QUOTE PARTICIPATION UNQUOTE IN SAUDI ARABIA
AND KUWAIT

SEPTEMBER 19, 1975 AT 2:30 P.M.
ROOM 1105, DEPARTMENT OF STATE

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TALKING POINTS

MR. LEIGH:

-- WE HAVE CONVENED THIS MEETING AT THE DIRECTION

OF SECRETARY KISSINGER IN ORDER TO HAVE A CONFIDENTIAL EXCHANGE OF VIEWS ON THE PROGRESS OF NATIONALIZATION OF THE OIL INDUSTRY IN VENEZUELA AND OF "PARTICIPATION" NEGOTIATIONS IN SAUDI ARABIA AND KUWAIT. PRESENT ARE REPRESENTATIVES OF AMERICAN OIL COMPANIES WITH INTERESTS IN THOSE COUNTRIES AND OFFICERS OF THE DEPARTMENT OF STATE INCLUDING:

CARLYLE MAW, UNDER SECRETARY OF STATE

MONROE LEIGH, LEGAL ADVISER

WILLIAM D. ROGERS, ASSISTANT SECRETARY OF STATE
FOR INTER-AMERICAN AFFAIRS

SIDNEY SOBER, DEPUTY ASSISTANT SECRETARY OF STATE
FOR NEAR EASTERN AND SOUTH ASIAN AFFAIRS

JULIUS KATZ, DEPUTY ASSISTANT SECRETARY FOR
ECONOMIC AND BUSINESS AFFAIRS.

-- OBVIOUSLY THE UNITED STATES AND THE COMPANIES HAVE A VITAL INTEREST IN THE SUCCESSFUL CONCLUSION OF THESE NEGOTIATIONS.

-- IT IS WELL KNOWN THAT, WHERE A STATE NATIONALIZES THE PROPERTY INTERESTS OF AMERICAN NATIONALS, OR REQUIRES THEM TO SELL THOSE INTERESTS TO THE STATE, THE POSITION OF THE U.S. GOVERNMENT IS THAT PROMPT, ADEQUATE AND EFFECTIVE COMPENSATION SHOULD BE PAID FOR THOSE INTERESTS.

-- AT THE SAME TIME, WE RECOGNIZE THAT THERE IS ROOM FOR DIFFERENCE OF OPINION AS TO WHAT COMPENSATION IN A GIVEN CASE IS "ADEQUATE."

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-- WE ALSO RECOGNIZE THAT, EVEN IF, IN A GIVEN CASE, THE U.S. GOVERNMENT AND THE COMPANY CONCERNED WOULD AGREE THAT THE COMPENSATION OFFERED IS NOT APPROPRIATE, THE COMPANY MAY NEVERTHELESS WISH TO ACCEPT SUCH COMPENSATION AS IS OFFERED AS THE BEST DEAL AVAILABLE.

-- IN THE THREE MOST IMPORTANT AND CURRENT CASES, IN VENEZUELA, SAUDI ARABIA AND KUWAIT, WE UNDERSTAND THAT "COMPENSATION" IS TO TAKE ESSENTIALLY TWO FORMS: FIRST, PAYMENT OF NET BOOK VALUE FOR INSTALLATIONS AND INVESTMENTS TO BE EXPROPRIATED OR SOLD; SECOND, CONCLUSION OF NEW CONTRACTUAL ARRANGEMENTS BETWEEN THE FOREIGN GOVERNMENTS CONCERNED AND THE COMPANIES FOR

THE DEVELOPMENT AND SALE OF OIL WHICH THE COMPANIES BELIEVE WILL AFFORD ONGOING OPPORTUNITIES FOR PROFITABLE OPERATIONS IN THE COUNTRIES CONCERNED.

-- THE U.S. GOVERNMENT STRONGLY DESIRES THAT THE COMPANIES CONTINUE TO DEVELOP AND MARKET OIL OF THE COUNTRIES CONCERNED, NOT ONLY FOR THE PROFITS THEY WILL DERIVE BUT FOR OTHER OBVIOUS REASONS OF LARGER NATIONAL INTEREST AS WELL.

-- WE PRESUME THAT, IN CONNECTION WITH NATIONALIZATION OR SALE, AND THE ACCEPTANCE OF NET BOOK VALUE, THE RIGHT OF THE COMPANIES TO FULLER COMPENSATION MAY WELL BE WAIVED. WE WOULD ALL AGREE THAT PAYMENT OF NO MORE THAN NET BOOK VALUE FOR INSTALLATIONS IS UNLIKELY TO CONSTITUTE, OF ITSELF, ADEQUATE COMPENSATION, CERTAINLY AS THE U.S. GOVERNMENT VIEWS ADEQUACY (AT THE SAME TIME, WE APPRECIATE THAT MANY OTHER GOVERNMENTS WOULD HAVE DIFFERING VIEWS). YET IF THE RIGHT OF THE COMPANIES TO FULLER COMPENSATION IS WAIVED BY THEM, EXPLICITLY OR IMPLICITLY, THEIR LEGAL RIGHTS EVER TO SEEK FULLER COMPENSATION FOR THEIR CONCESSION CLAIMS QUITE PROBABLY WILL DISAPPEAR. THIS WOULD BE SO EVEN IF IT SHOULD TURN OUT THAT A GOVERNMENT CONCERNED DOES NOT PERFORM ITS NEW CONTRACTS FOR ONGOING OPERATIONS, CONTRACTS WHICH IN THE EYES OF THE COMPANIES CONSTITUTE A MAJOR ELEMENT OF THE REAL COMPENSATION PROJECTED. IN SUCH A CON-

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TINGENCY, THE COMPANIES MIGHT WELL HAVE VALID CLAIMS FOR VIOLATION OF THESE ONGOING CONTRACTS. BUT IT IS NOT AT ALL CLEAR THAT THEIR CLAIMS FOR FULLER COMPENSATION FOR THE RIGHTS THEY ARE NOW SURRENDERING WOULD REVIVE.

-- ACCORDINGLY, WE WISH TO SUGGEST THAT THE COMPANIES CONSIDER CONDITIONING THE RELINQUISHMENT OF RIGHTS TO COMPENSATION BEYOND THAT WHICH THE GOVERNMENTS NOW UNDERTAKE TO PAY ON THE PERFORMANCE OF THE CONTRACTS FOR ONGOING OPERATIONS. THAT IS TO SAY, WE SUGGEST THAT ACCEPTANCE OF NATIONALIZATION OR PARTICIPATION AND THE WAIVER OF RIGHTS TO COMPENSATION BEYOND THAT SPECIFIED BE CONDITIONED ON THE PERFORMANCE OF THE NEW CONTRACTS,

SO THAT, IF A GOVERNMENT CONCERNED SHOULD REPUDIATE ITS CONTRACTS, THE COMPANY WOULD BE LEGALLY ON STRONGER GROUND IN MAINTAINING THAT ITS CLAIM TO ADEQUATE COMPENSATION FOR THE RIGHTS IT IS NOW SURRENDERING REVIVES.

-- WE RECOGNIZE THAT A PROPOSAL OF THIS SUBSTANCE MAY NOT BE EASY TO CARRY AND THAT, IF IT CAN BE MANAGED, IT MAY HAVE TO BE SUBTLY EXPRESSED. WE RECOGNIZE TOO THAT PRESSING SUCH A PROPOSAL MIGHT AFFECT THE SUCCESS

OF NEGOTIATIONS FOR AN ONGOING RELATIONSHIP. WE ARE NOT URGING YOU TO TAKE A COURSE OF ACTION SHOULD YOU CONCLUDE THAT IT WILL PREJUDICE THE OUTCOME OF THOSE NEGOTIATIONS. FOR OUR PART, WE ARE VERY INTERESTED IN AN OUTCOME WHICH WILL PROVIDE FOR THE CONTINUED PARTICIPATION OF AMERICAN OIL COMPANIES IN VENEZUELA AND THE MIDDLE EAST. AT THE SAME TIME, WE DO NOT WISH RIGHTS OF IMMENSE VALUE AND IMPORTANCE TO THE NATIONAL INTEREST TO BE SURRENDERED NEEDLESSLY.

-- WE WISH TO MAKE IT CLEAR THAT WE ARE SPEAKING OF AN APPROACH THE COMPANIES MIGHT INDIVIDUALLY TAKE. WE ARE NOT SUGGESTING THAT THE UNITED STATES GOVERNMENT DIRECTLY TAKE A ROLE IN THE NEGOTIATIONS IN VENEZUELA AND THE MIDDLE EAST. AND WE DO NOT THINK THAT IT WOULD BE IN THE INTEREST OF ANY OF THE COMPANIES CONCERNED TO ATTRIBUTE THE FOREGOING APPROACH TO THE U.S. GOVERNMENT IN ANY COMMUNICATIONS THEY MAY HAVE WITH

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FOREIGN GOVERNMENTS.

-- AT THIS JUNCTURE, I SHOULD LIKE TO INVITE ASSISTANT SECRETARY ROGERS TO COMMENT ON THE NATIONALIZATION SITUATION IN VENEZUELA. AT A LATER POINT IN OUR DISCUSSION, DEPUTY ASSISTANT SECRETARY SOBER MAY WISH TO ADD COMMENTS ON PARTICIPATION NEGOTIATIONS IN THE MIDDLE EAST. AND, AT ANY POINT, UNDER SECRETARY MAW MAY WISH TO GIVE US THE BENEFIT OF HIS VIEWS.

MR. ROGERS:

-- WE APPRECIATE THE SERIOUSNESS WHICH THE VENEZUELAN GOVERNMENT HAS DEMONSTRATED AS IT HAS MOVED TOWARDS NATIONALIZATION. INCLUSION OF ARTICLE 5 OF THE NATIONALIZATION LAW WAS ACHIEVED AT CONSIDERABLE POLITICAL RISK BY THE AD PARTY. IT FOUGHT TO OPEN A WAY FOR CONTINUING COLLABORATION BY THE U.S. COMPANIES IN THE VENEZUELAN OIL INDUSTRY. IN PRINCIPLE, THE ISSUE OF SUCH COLLABORATION HAS NOW BEEN RESOLVED; THE WAY IS

OPEN TO IT, IF AGREEMENT ON ITS TERMS CAN BE ACHIEVED.

-- WE NOTE THE PROGRESS SOME COMPANIES HAVE MADE IN DISCUSSING POST-NATIONALIZATION CONTRACTUAL ARRANGEMENTS. IT IS OUR SENSE THAT THE GOVERNMENT OF VENEZUELA IS VERY WELL AWARE OF ITS NEED FOR YOUR CONTINUING TECHNICAL AND MARKETING SKILLS.

- THIS NEW FORM OF RELATIONSHIP CAN PRESERVE CONTINUING PRIVATE PROFITABILITY AS WELL AS A VERY IMPORTANT U.S. GOAL -- A MUTUALLY PRODUCTIVE RELATIONSHIP

WITH ONE OF THE VERY IMPORTANT COUNTRIES OF LATIN AMERICA.

-- SECRETARY KISSINGER APPRECIATES THE RESPONSIBILITY AND SENSITIVITY YOU HAVE SHOWN IN THESE NEGOTIATIONS. HE BELIEVES AS I DO THAT INTERVENTION OF THE U.S. GOVERNMENT IN THE VENEZUELAN NEGOTIATIONS NOW WOULD BE UNDESIRABLE AND COUNTERPRODUCTIVE. HE HOPES, AS I DO, FOR A SUCCESSFUL CONCLUSION TO YOUR OWN EFFORTS.

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MR. LEIGH:

-- WE HOPE THAT THIS STATEMENT OF DEPARTMENT VIEWS WILL BE HELPFUL TO YOU AS YOU INDIVIDUALLY DECIDE UPON YOUR STRATEGIES. WE IN THE GOVERNMENT HAVE BEEN FOLLOWING THIS COMPLEX PROCESS WITH OBVIOUS INTEREST. WE STAND READY TO MEET WITH YOU INDIVIDUALLY, AS WE ALREADY HAD OCCASION TO DO IN SOME CASES, TO DISCUSS INDIVIDUAL CIRCUMSTANCES IN SPECIFIC COUNTRIES.

-- WE DO NOT THINK THAT IT WOULD BE IN THE INTEREST OF ANY OF THE COMPANIES CONCERNED TO ATTRIBUTE THE APPROACH I HAVE SET OUT TO THE U.S. GOVERNMENT IN ANY COMMUNICATIONS WITH FOREIGN GOVERNMENTS.

END TEXT.

3. IN MAKING OUR NEXT REVISIONS, WE WILL TAKE INTO ACCOUNT YOUR EXCELLENT AND HELPFUL TELEGRAM (CARACAS 9774) AND PARTICULARLY THE POINT ON ARTICLE 12 OF THE LAW. KISSINGER

NOTE BY OC/T: DISSEMINATION COORDINATED WITH S/S-O, MR. MACK
9/18/75.

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